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WATCO, INC.

P.O. BOX 1270 SHOW LOW, AZ 85902/PHONE 928-537-8739/FAX 928-537-1245

28DL

Docket Number W-01979A-06-0357

February 19, 2007

Arizona Corporation Commission  
**DOCKETED**

MAR 22 2007

To Whom It May Concern:

|             |    |
|-------------|----|
| DOCKETED BY | NR |
|-------------|----|

On January 17, 2007, Del Smith and Katrin Stukov spoke with representative(s) of Watco, Inc. (hereinafter referred to as "Company") regarding several issues that pertain to the Finance Application and Rate Case currently under review by Arizona Corporation Commission (hereinafter referred to as "ACC") Staff. This letter is written per request of Del Smith and Katrin Stukov.

Issues are addressed in the order recorded by Watco, Inc. representative(s) and are as follows:

- 1) In conjunction with the Rate Case and Finance Application submitted to ACC, Watco, Inc. submitted an Application to WIFA requesting funds to be used in repairing/upgrading Watco, Inc.'s System; please supply Del Smith with a copy of the WIFA Application.

Aforementioned WIFA Application was sent to Del Smith via USPS on February 15, 2007.

- 2) Please supply ACC with documentation that Watco, Inc. had been placed on WIFA's 2006 Funding Cycle.

The requested documentation is included as Attachment A.

- 3) Watco, Inc. shall obtain Approval to Construct from ADEQ, for the Proposed Project (this includes construction of a 500,000 gallon storage tank, a tie-line between Silver Lake Estates and Bourdon Ranch Estates and continuance of a meter replacement program).

As a compliance issue in accordance with Docket No. W-20475A-06-0549, and per recommendation of Administrative Law Judge Marc E. Stern, Watco Inc. shall obtain Approval to Construct from ADEQ on or before August 1, 2007. Company's Engineer is currently addressing this matter.

AZ CORP COMMISSION  
DOCUMENT CONTROL

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- 4) Include a financial breakdown showing how the \$600,000 requested will be apportioned in the Proposed Project.

Please see Attachment B

- 5) Explain the need for fire-flow in the Watco, Inc. System.

The Watco, Inc. System is located in a forest fire prone area, as evidenced by the Rodeo-Chediski Fire. Lack of fire-flow endangers the subdivisions serviced by Watco, Inc. Having sufficient storage for fire-flow will alleviate fears experienced by residents in these areas and provide essential water should a fire occur.

Company has been contacted by members of the community serviced who are endeavoring to establish a fire district in the Silver Lake Estates System. These efforts have not yet arrived at fruition; however, should a fire occur, the Show Low Fire Department responds. Requirements of Show Low Fire Department are included in the Attachment listed below.

Please see Attachment B

- 6) Company has stated that it is more economically feasible to construct a new tank rather than refurbish the existing tank located in the Silver Lake Estates System; please justify the expense associated with constructing a new tank.

Please see Attachment C

- 7) Please justify the need for a 500,000 gallon storage tank.

Company calculated storage tank size by multiplying daily demand per service connection (348 gallons) by number of customers (300); thus equaling 104,400 gallons (two days storage providing normal daily demand). To account for Holiday weekend demand, 104,400 is multiplied by 2; providing a number of 208,800 gallons. Fire-flow requirements are 1,000 gpm for 2 hours, or 120,000 gallons. Adding 208,800 gallons (highest demand water usage) and 120,000 gallons (fire-flow requirement) equals a total of 328,800 gallons of water storage required in the Watco, Inc. System.

- 8) Provide the cost comparison of a 250,000 gallon storage tank and a 500,000 gallon storage tank.

|                     | Aquastore | Brown Tank and Steel |
|---------------------|-----------|----------------------|
| 250,000 gallon tank | \$250,000 | \$200,000            |
| 500,000 gallon tank | \$400,000 | \$300,000            |

- 9) Company implemented a meter replacement program in 2003; please supply ACC with an updated report on the status of this program.

According to Company calculations, 30 new meters have been installed in the Silver Lake Estates System since implementation of the meter replacement program. After subtracting 30 from the original 270 meters, a number of 240 is arrived at. Company believes 40 of those meters are in good operating condition; removing 40 from 240 leaves an approximate 200 meters that need to be replaced.

- 10) Explain how fire flow will be implemented in the Watco, Inc. System.

One hydrant is currently installed at the well-site location in Silver Lake Estates. Another hydrant will be installed in conjunction with proposed 500,000 gallon storage tank. These two hydrants will provide immediate fire flow; hydrant coverage in the rest of the System shall be implemented per Phases.

Should further information be required, feel free to contact me by any means mentioned in the header of this letter. Thank you.

Sincerely,

A handwritten signature in cursive script that reads "Thomas Grapp". The signature is written in dark ink and is positioned above the printed name.

Thomas Grapp

## ATTACHMENT A

**Arizona's Drinking Water Revolving Fund**  
**2006 Funding Cycle -- Priority List for Drinking Water Revolving Fund**  
**January 17, 2007**

| Rank | Applicant                              | Population | Project Title  | Project # | Amount Requested | Subsidy Rate Index | Funding Cycle |
|------|--|------------|--|-----------|------------------|--------------------|---------------|
| 1    | Naco Water Company                     | 1,086      | Phase II of System Upgrades  | 030       | \$ 1,400,000     | 70%                | 2006          |
| 2    | Camp Verde Water System                | 2,500      | Mongini Arsenic Plant  | 028       | \$ 750,000       | 70%                | 2006          |
| 3    | City of St Johns                       | 3,548      | Water Transmission Line Project  | 047       | \$ 3,480,000     | 75%                | 2006          |
| 4    | Highland Pines DWID                    | 1,000      | New Storage Tank and Main Replacement                                      | 046       | \$ 300,000       | 70%                | 2006          |
| 5    | Livco Water Company                    | 1,100      | Old Concho/Concho Valley Consolidation                                     | 010       | \$ 200,000       | 70%                | 2006          |
| 6    | Watco, Inc.                            | 790        | SLE/BR Storage/Tie Line Project  | 014       | \$ 599,000       | 70%                | 2006          |
| 7    | Flagstaff Ranch Water Company          | 400        | Arsenic Adsorption Package Treatment System                                | 043       | \$ 202,500       | 70%                | 2006          |
| 8    | Valley Utilities Water Company         | 4,500      | Arsenic Remediation  | 032       | \$ 1,776,100     | 70%                | 2006          |
| 9    | Golden Corridor Water Co.              | 145        | Upgrade Storage and Reinstatement Well for Compliance                      | 048       | \$ 160,000       | 70%                | 2006          |
| 10   | Town of Gila Bend                      | 1,980      | Water Transmission Line Project  | 050       | \$ 250,000       | 70%                | 2006          |
| 11   | Papago Butte DWID                      | 538        | Water System Replacement Project   | 049       | \$ 484,495       | 70%                | 2006          |
| 12   | Ashcreek Water Company                 | 250        | Increase of Water Storage Capacity with New Tank                           | 021       | \$ 19,440        | 70%                | 2006          |
| 13   | Ashcreek Water Company                 | 250        | Well Transmission  | 018       | \$ 19,750        | 70%                | 2006          |
| 14   | Ashcreek Water Company                 | 250        | Mohave System Distribution Line Upgrade / Replacement                      | 017       | \$ 25,450        | 70%                | 2006          |
| 15   | Ashcreek Water Company                 | 250        | Closing of Loop in Distribution Lines                                      | 016       | \$ 41,990        | 70%                | 2006          |
| 16   | Ashcreek Water Company                 | 250        | System Evaluation and Feasibility Study                                    | 020       | \$ 100,000       | 70%                | 2006          |
| 17   | Ashcreek Water Company                 | 250        | Installment of Transmission Valves and Flushing                            | 019       | \$ 5,700         | 70%                | 2006          |
| 18   | Livco Water Company                    | 1,100      | Replace Asbestos Pipline   | 012       | \$ 120,000       | 70%                | 2006          |
| 19   | Sue Juan Water Company                 | 120        | Arsenic Removal and Treatment (POU or well head)                           | 001       | \$ 50,000        | 70%                | 2006          |
| 20   | Livco Water Company                    | 1,100      | Water Storage Capacity Expansion   | 009       | \$ 250,000       | 70%                | 2006          |
| 21   | Tacna Water Co.                        | 450        | Arsenic Control Plant and New Water Source                                 | 042       | \$ 260,268       | 70%                | 2006          |
| 22   | Shepard Water Company                  | 500        | Martinez Lake Well Site Arsenic Treatment                                  | 041       | \$ 200,000       | 75%                | 2006          |
| 23   | Abra Water Company                     | 1,586      | Arsenic Removal  | 045       | \$ 250,000       | 75%                | 2006          |
| 24   | Oak Creek Utility Corp.                | 50         | New Storage Tank   | 040       | \$ 50,000        | 75%                | 2006          |
| 25   | Yavapai-Apache Nation                  | 2,000      | Clarkdale/Tunli Development  | 051       | \$ 3,449,902     | 75%                | 2006          |
| 26   | Tucson Water Department                | 690,000    | New Production Wells for Blended Water                                     | 033       | \$ 1,500,000     | 80%                | 2006          |
| 27   | Tucson Water Department                | 690,000    | South Avra Valley Storage & Recovery Project - Raw Water Delivery Pipeline | 035       | \$ 4,000,000     | 80%                | 2006          |
| 28   | Tucson Water Department                | 690,000    | South Avra Valley Storage & Recovery Project                               | 034       | \$ 3,000,000     | 80%                | 2006          |
| 29   | Maricopa County Municipal Water Distri | 200,000    | White Tanks Regional Water Treatment Plant                                 | 029       | \$ 55,000,000    | 80%                | 2006          |
| 30   | Las Quintas Serenas Water Company      | 4,000      | 400,000 Gallon Storage Tank and Back-up Generator                          | 052       | \$ 400,714       | 80%                | 2006          |
| 31   | Las Quintas Serenas Water Company      | 4,000      | Arsenic Remediation  | 044       | \$ 1,648,750     | 80%                | 2006          |
| 32   | Valle Escondido DWID                   | 650        | New Well and Reservoir Project   | 005       | \$ 1,000,000     | 70%                | 2006          |
| 33   | Community Water Company of Green Va    | 16,000     | Design/Construction of Arsenic Treatment Facilities                        | 003       | \$ 2,000,000     | 75%                | 2006          |
| 34   | Livco Water Company                    | 1,100      | Well #4 Activate Inactive Well   | 006       | \$ 60,000        | 70%                | 2006          |
| 35   | Livco Water Company                    | 1,100      | Upgrade/Replace Old Water Meters   | 011       | \$ 75,000        | 70%                | 2006          |

Note - All loans will be cash funded.

**Arizona's Drinking Water Revolving Fund**  
**2006 Funding Cycle -- Priority List for Drinking Water Revolving Fund**  
**January 17, 2007**

| Rank | Applicant                             | Population | Project Title  | Project # | Amount Requested | Subsidy Rate Index | Funding Cycle |
|------|---------------------------------------|------------|--|-----------|------------------|--------------------|---------------|
| 36   | Yarnell Water Improvement Association | 1,700      | Back Up Well Project                                   | 004 2006  | \$ 250,000       | 70%                | 2006          |
| 37   | Clear Springs Utility Company         | 1,142      | Repairs and Upgrades to Distribution and Booster Pumps | 038 2006  | \$ 69,212        | 75%                | 2006          |
| 38   | Livco Water Company                   | 1,100      | Upgrade/Replace Well Casings                           | 007 2006  | \$ 45,000        | 70%                | 2006          |
| 39   | Mohawk Utility Company                | 500        | Upgrade of Plant and Expansion of Storage              | 013 2006  | \$ 75,000        | 70%                | 2006          |
| 40   | Town of Florence                      | 13,966     | Potable Water System Improvements                      | 027 2006  | \$ 483,690       | 80%                | 2006          |
| 41   | City of Flagstaff                     | 62,718     | New Water Wells  | 036 2006  | \$ 8,500,000     | 80%                | 2006          |
| 42   | Livco Water Company                   | 1,100      | Well #3 Activate Inactive Well                         | 008 2006  | \$ 40,000        | 75%                | 2006          |
| 43   | City of Williams                      | 2,842      | Water Treatment Plant Upgrades                         | 039 2006  | \$ 900,000       | 75%                | 2006          |
| 44   | City of Holbrook                      | 5,100      | Heavy Industrial Park Infrastructure                   | 025 2006  | \$ 295,000       | 80%                | 2006          |
| 45   | Forest Lakes DWID                     | 2,500      | Installation of Meters                                 | 002 2006  | \$ 450,000       | 80%                | 2006          |
| 46   | City of Holbrook                      | 5,100      | Sun Valley Desalination Project                        | 024 2006  | \$ 2,000,000     | 80%                | 2006          |
| 47   | Double G Mobile Park                  | 50         | New Well for Back-up on Current Well                   | 031 2006  | \$ 13,000        | 75%                | 2006          |
| 48   | City of Flagstaff                     | 62,718     | Future Water Acquisition                               | 037 2006  | \$ 15,000,000    | 80%                | 2006          |
| 49   | City of Holbrook                      | 5,100      | Water Tank Rehabilitation and Tank Replacement         | 022 2006  | \$ 702,061       | 80%                | 2006          |
| 50   | Delta City Improvement District       | 1,000      | New District Connection with Existing Lines            | 026 2006  | \$ 250,000       | 80%                | 2006          |
| 51   | City of Holbrook                      | 5,100      | Hopi Travel Plaza Water Line                           | 023 2006  | \$ 2,500,000     | 80%                | 2006          |
| 52   | City of Peoria                        | 113,600    | Acquisition of Public Infrastructure                   | 015 2006  | \$ 16,200,000    | 85%                | 2006          |

Note - All loans will be cash funded.

## ATTACHMENT B

## WATCO, INC.

P.O. BOX 1270 SHOW LOW, AZ 85902/PHONE 928-537-8739/FAX 928-537-1245

February 12, 2007

To Whom It May Concern:

This letter is written as a preface to the Engineer's Report included hereafter. The Engineer's Cost Estimate enclosed consists of an estimate that incorporates all projects Watco, Inc. would like to complete in an effort to produce a functional and viable System that would best serve water customers being supplied in the Silver Lake Estates and Bourdon Ranch Estates subdivisions.

Watco, Inc. anticipates that Phases will be used to effectively complete all portions of the Engineer's Report and Cost Estimate. The WIFA funds requested at this time will be used to construct and install Phase 1 (hereinafter referred to as "Proposed Project"). The Proposed Project is comprised of three components; they are as follows: a 500,000 gallon storage tank, a tie-line between the Silver Lake Estates and Bourdon Ranch Estates Systems and continuation of a meter replacement program.

Prices applicable to the Proposed Project are listed below:

| Item                      | Unit | Unit Price | Quantity | Total Price      |
|---------------------------|------|------------|----------|------------------|
| Watermain, 8" PVC         | LF   | \$50       | 3,280    | \$164,000        |
| Watermain, 8" DIP         | LF   | \$75       | 400      | \$30,000         |
| Watermain, 6" PVC         | LF   | \$45       | 1,320    | \$59,400         |
| .5M Gal Storage Tank      | LS   | \$425,000  | 1        | \$425,000        |
| Hydrant Assembly          | EA   | \$5,000    | 1        | \$5,000          |
| Meter Assemblies          | EA   | \$550      | 200      | \$110,000        |
| TOTAL                     |      |            |          | \$793,400        |
| Engineering Services (5%) |      |            |          | \$41,595         |
| Contingencies (5%)        |      |            |          | \$41,595         |
| <b>TOTAL</b>              |      |            |          | <b>\$876,590</b> |

Unit Prices stated above are consistent with those in the Engineer's Cost Estimate; however, Total Price varies because of footages relevant to the Proposed Project.

For questions and comments, I may be contacted by any means mentioned in the header of this letter. Thank you.

Sincerely,



Thomas Grapp





FLEETWOOD ENGINEERING, LLC  
PO Box 1158 Lakeside, AZ 85929-1158  
928-368-8759

January 28, 2006

Cedar Grove Water Company  
POB 1270  
Show Low, AZ 85902

RE: Silver Lake Estates

Mr. Grapp,

I discussed the fireflow requirements for Silver Lake Estates with Brian Russell, fire inspector for the City of Show Low. Even though the subdivision is not located within the City of Show Low, their fire department will respond. Mr. Russell reported that the city adopted the International Fire Code (IFC) with an amendment of 1,000 gpm for required fireflow.

Consequently, the design value for fireflow for Silver Lake Estates is 1,000 gpm.

If you have any questions, please call me at the above number.

Thank you,

Marc Fleetwood, PE



FLEETWOOD ENGINEERING, LLC  
PO Box 1158 Lakeside, AZ 85929-1158  
928-368-8759

October 1, 2006

WATCO  
Attn: Mark Grapp  
POB 1270  
Show Low, AZ 85902

RE: WATCO System Improvements and Interconnection with Bourdon Ranch Estates

Mr. Grapp,

After reviewing the existing conditions of WATCO Water Company and the terrain between the two service areas it appears to be a necessary idea to connect the two distribution systems and increase the storage and flow capabilities of the system to enhance the management, economic feasibility, reliability, and provide forest and domestic fireflows. Contained in this report are the requirements to achieve this goal and the estimated costs.

Let's begin with a description of what the WATCO Water Company is trying to accomplish by improving their system and connecting the Bourdon Ranch Estates and Silver Lake Estates Subdivisions. Improvements in the existing system will provide fire protection to the residents of Silver Lake Estates & Bourdon Ranch Estates. This forest and domestic fire protection will be possible by providing a larger storage tank and larger watermain throughout the subdivisions. The connection between the two water systems will give redundancy to both systems, since now the systems will be able to draw from two wells. The increased flow and storage will better protect the residents against forest fire danger. Fire protection service will be provided by Show Low Fire Department and system will be designed to Show Low Fire Department specifications.

See attached Design Report and Cost Estimate for details.

Thank You,

Marc Fleetwood, PE



WATCO Water Company  
Design Report to Add Fireflows to the System  
And Connect to Bourdon Ranch Estates Distribution System

The existing wells for WATCO are 538 feet deep for Silver Lake Estates and 440 feet deep for Bourdon Ranch Estates. The well pumps produce 58 gpm and 31 gpm, respectively. The current system has two storage tanks of 100,000 gallons and 25,000 gallons. To provide fireflow, WATCO will have to locate a large reservoir on a high point near the subdivisions and increase the size and loop many of its watermains.

The current total pumping capacity per day is 96,120 gallons per day. This amount is based on pumps running 18 hours per day. Use of 18 hours per day is conservative to allow for filling of storage tanks and times when the pump is off during low water demand. Silver Lake Estates experiences high summertime demand when its well runs continuously.

By the end of construction, total number of connections is estimated to be 330. The peak month usage is about 400 gpd and is equivalent to 132,000 gallons per day. That amount is already above the pumping capacity and does not include any forest or domestic fire protection.

The fireflow required from Show Low Fire Department for this rural setting is 1,000 gpm for two hours or 120,000 gallons. Show Low Fire Department will be the responding department.

The pumping capacity of the wells should be set at the peak demand and one-half the fireflow, or 192,000 gallons per day. This gives combined production of the two wells at 145 gpm. If this amount cannot be met with the two existing wells an additional well may be needed.

The elevated storage should be a minimum of 500,000 gallons and 24 feet tall. This will allow for two days storage and the required fireflow.

The distribution system will need many upgrades to accommodate the required fireflow. Many of the 4" watermains will need to be replaced with 6" watermains throughout Silver Lake Estates. An 8" watermain will need to be installed to the storage reservoir and in between Silver Lake Estates and Bourdon Ranch Estates. All dead-end lines will need to be looped. Fire hydrants will need to be installed in all areas of both subdivisions. See below for quantities and estimated costs.

This project will need to be reviewed and approved by Arizona Department of Environmental Quality (ADEQ).

## COST ESTIMATE

| Item                       | Unit | Unit Price | Qty    | Total Price      |
|----------------------------|------|------------|--------|------------------|
| 1. Watermain, 8" PVC       | LF   | \$50       | 5,200  | \$260,000        |
| 2. Watermain, 6" PVC       | LF   | \$45       | 15,900 | \$715,500        |
| 3. Watermain, 8" DIP       | LF   | \$75       | 400    | \$ 30,000        |
| Exposed installed on Piers |      |            |        |                  |
| 4. 0.5M Gal Storage Tank   | LS   | \$425,000  | 1      | \$425,000        |
| 5. Hydrant Assembly        | EA   | \$5,000    | 28     | \$140,000        |
| 6. Pumps and Controls      | EA   | \$18,000   | 2      | \$ 36,000        |
| 7. Valves                  | EA   | \$800      | 40     | \$ 32,000        |
| 8. Meter Assemblies        | EA   | \$550      | 270    | <u>\$148,500</u> |

|                           |                  |
|---------------------------|------------------|
| TOTAL                     | \$1,787,000      |
| Engineering Services (5%) | \$ 89,000        |
| Contingencies (5%)        | <u>\$ 89,000</u> |

**TOTAL                      \$1,965,000**

If the existing wells cannot produce required flows another well will need to be drilled.

|  |    |          |   |                  |
|--|----|----------|---|------------------|
| 1a. Pumps, Controls,<br>Site and Power | LS | \$20,000 | 1 | \$ 20,000        |
| 2a. Well                               | LS | \$80,000 | 1 | <u>\$ 80,000</u> |

|                      |                 |
|----------------------|-----------------|
| TOTAL                | \$ 100,000      |
| Engineering Services | \$ 5,000        |
| Contingencies        | <u>\$ 5,000</u> |

**TOTAL                      \$ 110,000**

## ATTACHMENT C

# REFURBISH EXISTING TANK

|                       |              |
|-----------------------|--------------|
| Material*             | \$15,000     |
| Equipment*            | \$24,862     |
| Labor*                | \$5,000      |
| Recoat                | \$30,000     |
| Replace Floor         | \$35,000     |
| Sub-Total             | \$109,862    |
| Engineering 5%        | \$5,493.10   |
| Contingencies 5%      | \$5,493.10   |
| Compaction Testing 5% | \$5,493.10   |
| TOTAL                 | \$126,341.30 |

\*NOTE: These items shall be used in/during site preparation.

# CONSTRUCT NEW TANK

|                   |           |
|-------------------|-----------|
| Site Preparation  | \$10,000  |
| Tank Construction | \$100,000 |
| TOTAL             | \$110,000 |